
Board Action Bulletin



Prepared by the Office of External Affairs

NCUA BOARD MEETING RESULTS FOR JULY 21, 2005

2005 mid-session budget adopted

The NCUA Board approved a \$1.68 million decrease in the agency's operating budget for 2005. The revised 2005 NCUA operating budget is \$146,320,454.

Mid-session budget adjustments

	Board Approved Budget	Revised Budget Needs	Change	%Change
Employee Pay	\$ 89,368,676	\$ 86,474,485	\$ (2,894,191)	-3.2%
Employee Benefits	23,093,685	23,143,135	49,450	0.2%
Travel	12,818,897	13,120,961	302,064	2.4%
Rent/Communications/Utilities	3,930,100	3,926,029	(4,071)	-0.1%
Administrative	10,498,368	10,590,591	92,223	0.9%
Contracted Services	8,286,418	9,065,253	778,835	9.4%
Total	<u>\$ 147,996,144</u>	<u>\$ 146,320,454</u>	<u>\$ (1,675,690)</u>	<u>-1.1%</u>

While the mid-session budget decrease is driven by retirements and vacancies, in April 2005 the agency's staffing level increased when the number of new hires surpassed the number of retirements and resignations.

The most significant increases approved at the 2005 mid-session budget review include:

- **\$302,000** for travel expense increases.
- **\$250,000** for legal and consulting fees to address new and emerging risks.
- **\$200,000** for network consulting related to replacing employee computers. NCUA's current computer lease expires in January 2006.

RegFlex expansion proposed

The National Credit Union Administration issued, with a 60-day comment period, a proposed rule change to Part 742 to enhance the Regulatory Flexibility Program (RegFlex). To automatically qualify for RegFlex under the proposed rule, a credit union must meet a new dual net worth requirement and be rated a CAMEL code 1 or 2 for two consecutive examinations.

Credit unions with 7 percent minimum net worth are currently classified "well capitalized" under Prompt Corrective Action. This proposal recommends the 7 percent minimum net worth

requirement also qualify credit unions for RegFlex. Currently RegFlex requires a minimum 9 percent net worth. Credit unions subject to risk-based net worth (RBNW) requirements must maintain RBNW “well capitalized” standards.

The proposal also recommends credit unions qualify for RegFlex by maintaining 7 percent net worth for six consecutive quarters. This would negate any relative risk exposure by substantially extending the current one quarter minimum net worth requirement.

Secondary capital account amendments proposed

The NCUA Board issued proposed changes to Part 701.34 to strengthen the financial position of low-income designated credit unions by permitting them to redeem secondary capital within five years of maturity to prevent maturing secondary capital from diluting net worth when it remains booked as an asset. The action will help low-income credit unions steer clear of related PCA requirements.

The proposed amendment also recommends NCUA approve secondary capital account plans before a credit union offers and redeems the accounts. Comments are due within 60-days of publication in the *Federal Register*.

In the near future, internal guidance as well as an update to the *Examiners Guide* will be providing additional guidance and assistance.

NCUSIF quarterly report at mid-year

The National Credit Union Share Insurance Fund (NCUSIF) net income was \$30.2 million in the first six months of 2005, gross income was \$76.2 million, operating expenses were \$38.2 million, and insurance loss expense totaled \$7.8 million.

Seven credit unions failed in the first six months of 2005. NCUSIF reserves totaled \$69.7 million, with an additional \$513,000 added during June to address specific problem credit unions. There were 281 problem, CAMEL code 4 and 5 credit unions at mid-year 2005 holding 1.04 percent of total insured shares.

The NCUSIF equity ratio declined to 1.25 percent based on a projected June 30, 2005, share base of \$517.5 billion. Determined by the rate of share growth and the amount of losses sustained, the equity ratio is expected to end the year at 1.27 percent.

Purchase and assumption proposal issued and comments requested on nonconforming investments

The NCUA Board issued, with a 60-day comment period, a proposed rule change to Part 741.8 that would clarify the scope of the rule and add an exemption specifying NCUA approval is not required for the sale or purchase of loans or other assets between federally insured credit unions (FISCUs). For purchase and assumptions that do require approval, the proposal adds a new subsection describing what a credit union should submit to the appropriate NCUA regional office.

In a related section, NCUA requests comments on a revision to Part 741.3, which would eliminate nonconforming reserves and require FISCUs to purchase only investments nationally recognized as “investment grade.”

To protect the National Credit Union Share Insurance Fund, NCUA is soliciting comments on whether regulations should require FISCUs investing in CUSOs to comply with limits on the structure, accounting, audits, NCUA access, and corporate separateness addressed in rule sections 712.3 and 712.4.

Restrictions proposed on post-NCUA employment

The NCUA Board issued new proposed rule Part 796 to implement post-employment restrictions on certain NCUA “senior examiners.” Based on recently enacted law, for one year after leaving, NCUA senior examiners cannot be employed at a credit union they had significant responsibility for examining during two or more months of their final 12 months with NCUA.

Issued by NCUA with a 60-day comment period, all four federal financial regulatory agencies have, or will soon be issuing, consistent, comparable proposed rules for senior examiners.

Votes are unanimous unless indicated.